

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5417-01
Bill No.: Perfected HB 1867
Subject: Workers Compensation; Insurance-General
Type: Original
Date: April 19, 2016

Bill Summary: This proposal specifies that beginning January 1, 2017, certain shareholders of S corporations may elect to reject workers' compensation insurance coverage.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Workers' Compensation Administration Fund	Up to (\$60,043)	Up to (\$120,086)	Up to (\$120,086)
Second Injury Fund	Up to (\$360,257)	Up to (\$720,513)	Up to (\$720,513)
Total Estimated Net Effect on Other State Funds	Up to (\$420,300)	Up to (\$840,599)	Up to (\$840,599)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Labor and Industrial Relations** assume this proposal will have a negative fiscal impact on their organization.

There will be a fiscal impact to the Workers' Compensation Administrative Tax and the Second Injury Fund. Information from the Department of Revenue indicates in December 2014 there were 132,180 "S" corporations located in the state of Missouri which would fall under consideration as an "S" corporation within the tax law. Of the 132,180 "S" corporations located in Missouri, 27,732 are Limited Liability Companies which are treated as an "S" corporations under the tax law.

The premium determination for executive officers will be calculated using the payroll amount of \$39,500, effective January 1, 2016. The 2015 rate for officers and clerical class is 23 cents per \$100 of workers' compensation payroll. The payroll amount of \$39,500 divided by 100 multiplied by .23 equals \$90.85; which is the estimated premium for one officer. If all 132,180 "S" corporations have at least one shareholder who has a 40% or greater interest in the corporation and the shareholder individually elects to reject coverage, there would be a reduction in total premium of at least \$12,008,553 (132,180 x \$90.85).

The Workers' Compensation Administrative tax and surcharge rate for CY2015 was 1%. The Second Injury Fund surcharge rate and supplemental surcharge rate was a total of 6%.

Based on these assumptions, the fiscal impact to the Division of Workers' Compensation would be a reduction in the Workers' Compensation Administrative Fund in the amount of \$120,086. The fiscal impact to the Second Injury Fund (including supplemental) would be a reduction of \$720,513.

If the actual information on "S" corporations is dramatically different than the assumptions, the impact to the Workers' Compensation Administrative Fund and Second Injury Fund would vary accordingly.

Officials at the **Department of Insurance, Financial Institutions, and Professional Registration, Office of Administration - General Services, Office of Secretary of State, and Joint Committee on Administrative Rules** each assume this proposal will not have a fiscal impact on their respective organizations.

ASSUMPTION (continued)

Oversight assumes this proposal would authorize a shareholder with at least 40% interest in an S corporation to reject workers' compensation coverage. Oversight also assumes the proposal could become effective January 1, 2017. Since it is unknown how many shareholders fall within this category, for fiscal note purposes, Oversight will use the DOLIR's estimate of loss to the Workers' Compensation Administrative Fund and the Second Injury Fund. Oversight will include a loss of six months (50% of full year loss) for FY 2017 and a full year as maximum possible losses for FY 2018 and FY 2019.

House Amendment 1

In response to a similar proposal from this year (HB 2429), **Oversight** received the following responses:

Officials at the **Office of Administration - General Services, Office of Administration - Personnel, Attorney General's Office, Department of Insurance, Financial Institutions, and Professional Registration, Department of Labor and Industrial Relations, Department of Mental Health, Department of Public Safety - Veterans Commission, Department of Economic Development, Department of Corrections, Department of Transportation, and Department of Conservation** each assumed the proposal would not have a fiscal impact on their respective organizations.

Officials at the **Missouri State University, Northwest Missouri State University, State Technical College of Missouri, University of Central Missouri, and University of Missouri** each assumed the proposal would not have a fiscal impact on their respective organizations.

Officials at the school districts of **Macon County R-IV, Malta Bend, New Haven, St. Elizabeth R-IV, West Plains R-VII, and Wright City R-II** each assumed the proposal would not have a fiscal impact on their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
WORKERS' COMPENSATION ADMINISTRATIVE FUND			
<u>Revenue reduction - DOLIR</u>			
Premium reduction - Shareholders with 40% or greater interest in S Corporations - Section 287.037	<u>Up to (\$60,043)</u>	<u>Up to (\$120,086)</u>	<u>Up to (\$120,086)</u>
ESTIMATED NET EFFECT ON WORKERS' COMPENSATION ADMINISTRATIVE FUND	<u>Up to (\$60,043)</u>	<u>Up to (\$120,086)</u>	<u>Up to (\$120,086)</u>
SECOND INJURY FUND			
<u>Revenue reduction - DOLIR</u>			
Premium reduction - Shareholders with 40% or greater interest in S Corporations - Section 287.037	<u>Up to (\$360,257)</u>	<u>Up to (\$720,513)</u>	<u>Up to (\$720,513)</u>
ESTIMATED NET EFFECT ON SECOND INJURY FUND	<u>Up to (\$360,257)</u>	<u>Up to (\$720,513)</u>	<u>Up to (\$720,513)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses could be expected as a result of this proposal.

If small business owners exempt themselves from workers' compensation coverage as authorized by this proposal, these small business will reduce their business expenses.

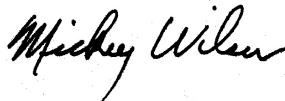
FISCAL DESCRIPTION

This bill authorizes, beginning January 1, 2017, a shareholder of an S corporation with at least 40% interest in the S corporation to elect to reject coverage under the Workers' Compensation Law by providing written notice. Failure to provide notice is not grounds for a shareholder to claim that the rejection is not legal. The rejection of coverage may be rescinded, however the shareholder will only be entitled to benefits that accrued on or after the date the notice is received by the insurance company.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Department of Insurance, Financial Institutions, and Professional Registration
Office of Administration - General Services
Office of Secretary of State
Joint Committee on Administrative Rules



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Director
April 19, 2016

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April 19, 2016